

# **The Taxation of Agriculture in Washington State**



**SENATE WAYS AND MEANS COMMITTEE**  
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# TAXATION OF AGRICULTURE

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# **Taxation of Agriculture**

## **I. Summary**

Agricultural land is subject to current use valuation for property tax purposes, and agricultural products, growing crops, and nursery stock are exempt from property tax. Agricultural machinery and equipment is exempt from the state property tax. Agricultural machinery, equipment, and structures that are used at least half of the time to reduce field burning are exempt from both state and local property taxes through 2006.

Agricultural producers are exempt from business and occupation (B&O) taxes on the growing, producing, and harvesting of agricultural products and on the wholesale sale of agricultural products. B&O taxes apply to their retail sales and to any manufacturing of agricultural products. However, agricultural-related activities, like certain food processing (manufacturing), are eligible for preferential B&O tax rates.

Many agricultural purchases are exempt from sales and use taxes and include purchases of livestock, purchases of feed, seed, fertilizer, and pesticides, purchases of animal pharmaceuticals, purchases of materials and supplies used in packing horticultural products, and purchases of machinery, equipment, and structures used at least half of the time to reduce field burning. In addition, the retail sale of agricultural products is exempt from sales and use tax if sold as food for human consumption.

While not applicable to farmers, there are exemptions available to agriculture-related manufacturers. New or replacement manufacturing machinery and equipment is exempt from sales and use taxes. The construction or remodeling of manufacturing structures in rural counties is exempt from sales and use taxes.

## **II. Property Tax**

### **A. Land**

Agricultural land may be taxed based on its current use value rather than its highest and best use value under the open space agricultural land program. Current use valuation is also available for the land under a principal residence of a farmer and housing for employees if on contiguous property for farms over 20 acres. Const. Article VII, section 11. RCW 84.36.020(2)(d).

### **B. Agricultural Product Exemptions**

#### **1. Agricultural and Horticultural Products**

Agricultural and horticultural products of farmers are exempt from property taxes. This includes products of animal husbandry. RCW 84.36.470. They are also exempt as a business inventory under RCW 84.36.477.

## 2. Growing Crops

Growing crops are exempt from property taxes. RCW 84.40.030(3). Few crops are actually growing on the January 1st assessment date. This exemption provides parity for those that are.

## 3. Nursery Stock

Nursery stock that is grown in pots or bags is exempt from property taxes. RCW 84.40.220. This provides parity with products grown in the ground. It is also exempt as a business inventory under RCW 84.36.477.

### **C. Structures, Machinery, & Equipment Exemptions**

#### 1. Agricultural Machinery & Equipment

Machinery & equipment owned by a farmer and used exclusively to grow agricultural products are exempt from the state property tax. Local property taxes continue to apply. RCW 84.36.630.

#### 2. Machinery & Equipment and Structures to Reduce Field Burning

Machinery & equipment and structures that is exempt from sales tax because it is used at least half of the time for gathering, densifying, processing, handling, storing, transporting, or incorporating straw or straw-based products that results in a reduction in field burning of cereal grains and field and turf grass grown for seed or to decrease air emissions resulting from field burning of cereal grains and field and turf grass grown for seed are exempt from property taxes. The exemption applies to taxes due in 2001 through 2006. RCW 84.36.580.

## **III. B&O Tax**

### **A. Exemptions**

#### 1. Agricultural Production and Packaging

The growing, producing, and harvesting of agricultural products is not considered manufacturing for purposes of the B&O tax. In addition, the packing of agricultural products, including sorting, washing, rinsing, grading, waxing, treating with fungicide, packaging, chilling, or placing in controlled atmospheric storage, is not considered manufacturing. RCW 82.04.120. The production by farmers of agricultural products owned by others, such as custom feed operations, are exempt from B&O taxes. RCW 82.04.330.

Because the sale at wholesale of agricultural products by farmers is exempt from B&O taxes under RCW 82.04.330, farmers who perform these activities on their own agricultural products are not subject to B&O tax (both manufacturing and wholesaling) with respect to wholesale sales of their agricultural products. They are also exempt from B&O taxes (both manufacturing and wholesaling or retailing) on out-of-state sales of their agricultural products. Persons who pack agricultural products for others are subject to B&O tax; however, a B&O tax deduction is allowed under RCW 82.04.4287 for amounts received for washing, sorting, and packing fresh perishable horticultural products for farmers.

## 2. Seafood Processing

The cutting, grading, or ice glazing of seafood which has been cooked, frozen, or canned out of state is not considered manufacturing. RCW 82.04.120. Thus, seafood processors who perform these activities on their own seafood are exempt from B&O taxes (both manufacturing and wholesaling or retailing B&O taxes) on out-of-state sales. They are subject to wholesaling or retailing B&O taxes on in-state sales of processed seafood. Persons performing these activities for others would be subject to B&O tax.

## 3. Hay & Alfalfa Cubing

The cubing of hay and alfalfa is not considered manufacturing. RCW 82.04.120. This is exempt when performed by the farmer as agricultural production. Farmers who cube their own hay or alfalfa are not subject to B&O tax on this activity or upon wholesale sales of cubed hay. Persons who cube hay or alfalfa for others are taxed under the service and other activities B&O tax classification if done on the farmer's land (farming for hire) and the wholesaling classification if the cubing is performed away from the farmer's land.

## 4. Fish Cleaning

The removal of the head, fins, or viscera of fresh-water fish without further processing is exempt from B&O taxes. RCW 82.04.2403.

## 5. Conditioned Seed Sales

The sale of conditioned seed to farmers and the conditioning of seed of others for planting is exempt from B&O taxes. RCW 82.04.331 and 82.04.120. Seed includes potatoes and other agricultural seeds. It does not include flower seeds or propagative portions of plants used to grow bushes, shrubs, or trees.

## 6. Wholesale Sales

Wholesale sales by farmers of agricultural products, including Christmas trees and products of animal husbandry, are exempt from B&O taxes. RCW 82.04.330.

7. Wholesale Purchases and Sales of Grain

The buying and selling at wholesale sale of un-manufactured wheat, oats, barley, dry peas, dry beans, lentils, and triticale are exempt from B&O taxes. RCW 82.04.332.

8. Processed Hop

Sales of hops by hop growers & dealers that are processed into extract, pellets, or powder and are shipped outside the state for first use is exempt from B&O taxes. RCW 82.04.337.

9. Hatching Eggs or Poultry Production & Sale

Production and sale of hatching eggs or poultry for use in producing poultry or poultry products for sale is exempt from B&O taxes. RCW 82.04.410.

**B. Deductions**

1. Horticultural Packaging

A deduction from the B&O tax is allowed for amounts received for washing, sorting, & packing fresh perishable horticultural products for farmers, including amounts paid for materials and supplies. RCW 82.04.4287.

2. Agricultural Loan Interest

A deduction from the B&O tax is allowed for amounts received as interest on loans to farmers, ranchers, and their cooperatives by institutions owned by their members and engaging solely in making loans to farmers, ranchers, and their cooperatives. RCW 82.04.4294.

**C. Preferential Tax Rates For Agricultural Activities**

1. Manufacturing Rate of 0.138% Instead of 0.484%

a. Flour and Oil

A B&O tax rate of 0.138% applies to manufacturing wheat into flour, barley into pearl barley, soybeans into soybean oil, canola into canola oil or products, and sunflower seeds into sunflower oil. RCW 82.04.260(1)(a).

b. Seafood

A B&O tax rate of 0.138% applies to manufacturing seafood products that remain in raw, raw frozen, or raw salted state when completed. RCW 82.04.260(1)(b).

c. Fruits & Vegetables

A B&O tax rate of 0.138% applies to manufacturing fresh fruit and vegetables. RCW 82.04.260(1)(c).

d. Dairy Products

A B&O tax rate of 0.138% applies to manufacturing dairy products and by-products. RCW 82.04.260(1)(d).

e. Dry Peas

A B&O tax rate of 0.138% applies to dry pea splitting or processing. RCW 82.04.260(2).

f. Meats

A B&O tax rate of 0.138% applies to slaughter, breaking, and processing of perishable meat and its wholesale sale. RCW 82.04.260(4).

2. Service Rate of 0.484% Instead of 1.5%

a. Storage Warehouse.

A B&O tax rate of 0.484% applies to the operation of a cold storage warehouse used to store fresh and/or frozen perishable fruits or vegetables, meat, seafood, dairy products, or fowl at a temperature to maintain the quality of the product for orderly marketing. RCW 82.04.280(4).

#### **IV. Litter Tax Exemptions**

The litter tax does not apply to sales at wholesale by farmers that are exempt from the B&O tax. RCW 82.19.050.

#### **V. Retail Sales & Use Tax Exemptions**

##### **A. Agricultural Sales**

1. Food

The sales of food for human consumption is exempt from sales tax, whether made by a farmer or otherwise. RCW 82.08.0293 and 82.12.0293.



2. Pollen

The sale of pollen is exempt from sales and use taxes. RCW 82.08.0277 and 82.12.0273.

**B. Agricultural Purchases**

**1. Livestock**

a. Livestock & Cattle

The sale of livestock used for breeding purposes and cattle & milk cows used on a farm are exempt from sales and use taxes. RCW 82.08.0259 and 82.12.0261.

b. Poultry

The sale of poultry for use in producing poultry or poultry products for sale is exempt from sales and use taxes. RCW 82.08.0267 and 82.12.0262.

c. Semen

The sale of semen for artificial insemination of livestock is exempt from sales and use taxes. RCW 82.08.0272 and 82.12.0267.

**2. Agricultural Inputs (Consumables)**

a. Horticultural Services Provided to Farmers

Horticultural services provided to farmers are exempt from sales and use taxes. This includes the cultivation of vegetables, fruits, grains, field crops, ornamental floriculture, and nursery products and includes soil preparation, crop cultivation, and harvesting services. RCW 82.04.050(3)(e).

b. Feed, Seed, Fertilizer, Pollination Agents, and Chemical Sprays

The sale of feed, seed, fertilizer, pollination agents, and chemical sprays to farmers (including those that participate in specified federal conservation and habitat protection programs or under a cooperative habitat agreement with the Washington State Department of Fish & Wildlife) are exempt from sales and use taxes if used for the commercial production of an agricultural product. Pollination agents include insects such as bees. Chemical sprays for the post-harvest treatment of fruit to prevent scald, fungus, mold, or decay are also exempt. RCW 82.04.050(8).

c. Feed for Cultivating Fish

The sale of feed for cultivating or raising fish within confined rearing areas on the person's own land or land in which the person has a present right of possession is exempt from sales and use taxes. RCW 82.08.0294 and 82.12.0294.

d. Feed Consumed by Livestock at a Public Livestock Market

Feed consumed by livestock at a public livestock market is exempt from sales and use taxes. RCW 82.08.0296 and 82.12.0296.

e. Pollen

The sale of pollen is exempt from sales and use taxes. RCW 82.08.0277 and 82.12.0273.

f. Animal Pharmaceuticals

Animal pharmaceuticals approved by the United States Department of Agriculture or by the United States Food and Drug Administration sold to farmers or veterinarians are exempt from sales and use taxes if administered to an animal raised by a farmer for sale. RCW 82.08.880 and 82.12.880.

g. Horticultural Packaging

Materials and supplies used in packing horticultural products are exempt from sales and use taxes if the income from the activities is deductible under the B&O tax. RCW 82.08.0311 and 82.12.0311.

h. Propane or Natural Gas for Chicken Coops

Sales to farmers of propane or natural gas used to heat structures that house chickens are exempt from sales and use taxes. RCW 82.08.910 and 82.12.910. (Currently, natural gas is not subject to the sales tax.)

i. Bedding Materials for Chickens

Sales to farmers of bedding materials for chickens, such as wood shavings, straw, and similar materials, are exempt from sales and use taxes. RCW 82.08.920 and 82.12.920.

**3. Structures, Machinery, & Equipment**

a. Auction Sales

Sales of tangible personal property that was used in a farm activity (e.g., farm machinery and implements) sold through auctioneers is exempt from sales tax if the seller is a farmer and the sale is held on a farm. RCW 82.12.0258.

b. Machinery & Implements for Use Outside the State

Sales to nonresidents of machinery and implements for use in farming, parts for machinery and implements for use in farming, and labor for the repair of machinery, implements, and parts for use in farming are exempt from sales tax if the goods are immediately transported outside the state. RCW 82.08.0268.

c. Irrigation Equipment Leases

Leases of irrigation equipment which is in whole or in part attached to the land and is an incidental part of the land lease is exempt from sales tax, provided the sales or use tax was paid on the original purchase of the equipment by the owner. RCW 82.08.0288 and 82.12.0283.

d. Food Processing Property Sale/Leaseback

Property and equipment used in the business of processing fresh fruit, vegetables or fish is exempt from sales tax if it is leased by the original owner under the terms of a sale/leaseback transaction. RCW 82.08.0295 and 82.12.0295. This would also be exempt under the manufacturing machinery and equipment exemption under RCW 82.08.02565 and 82.12.02565.

e. Farm Worker Housing

Labor, services, and materials used to construct, repair, decorate, or improve agricultural employee housing is exempt from sales and use tax. The housing must be used for 5 consecutive years or the full tax, with interest, is due. RCW 82.08.02745 and 82.12.02685.

f. Equipment & Structures to Reduce Field Burning

Machinery & equipment, structures, components, and labor on the structures or machinery and equipment used at least half of the time for gathering, densifying, processing, handling, storing, transporting, or incorporating straw or straw-based products that results in a reduction in field burning of cereal grains and field and turf grass grown for seed or to decrease air emissions resulting from field burning of cereal grains and field and turf grass grown for seed is exempt from sales and use taxes until January 1, 2006. RCW 82.08.840 and 82.12.840.

g. Dairy Nutrient Management Equipment and Facilities

Maintenance and repair of dairy nutrient management equipment and facilities is exempt from sales and use taxes. RCW 82.08.890 and 82.12.890.

h. Anaerobic Digester

Purchase, construction, and repair of an anaerobic digester used primarily to treat dairy manure is exempt from sales and use taxes. RCW 82.08.900 and 82.12.900.

i. Manufacturing Structures, Machinery, & Equipment

While not applicable to farmers, there are exemptions available to agriculture-related manufacturers. New or replacement manufacturing machinery and equipment is exempt from sales and use taxes. RCW 82.08.02565 and 82.12.02565. This does not apply to short-lived tools, hand tools, or consumable supplies. The construction or remodeling of manufacturing facilities in rural counties is exempt under chapter 82.60 RCW.